annual report 1967

MONTGOMERY WARD

Montgomery Ward has a fresh, new look, symbolized by the smartly attired young couple on the cover and by the apparel and products featured in all color photos of this report. It is the look of modern America and modern merchandising—fashion-right, colorful and brimming with radiant vitality and confidence in the future—the Montgomery Ward way of doing business in 1968.

results at a glance

	1967	1966
Net Sales	$1,879,009,189	$1,894,123,278
Earnings before Federal Income Taxes *(including all subsidiaries)*	30,782,174	27,467,438
Earnings after Federal Income Taxes	17,425,174	16,528,438
Earnings Reinvested During Year	3,870,174	2,972,347
Stockholders' Investment	662,073,439	659,817,829
Stockholders' Investment per Common Share	51.61	51.32
Earnings per Common Share	1.31	1.24
Dividends per Common Share	1.00	1.00

letter to stockholders:

Net income of Montgomery Ward's retail, catalog and subsidiary operations totaled $17,425,174 for the fiscal year ended January 31, 1968, equivalent to $1.31 per share of common stock. This compared with earnings of $16,528,438 last year, or $1.24 per share.

Intensive efforts to strengthen the profitability of operations throughout the year resulted in a 50% improvement of fourth quarter earnings. Since the fourth quarter gain resulted from basic operating changes which continue to favorably affect earnings and because of the improvement of sales trends, we anticipate a profitable Spring season.

Significant factors contributing to the improvement of earnings during the 1967 fiscal year were:

1. Upgrading of quality and price levels of merchandise; elimination of slow-moving items from product lines; strong and timely sales promotions of seasonal merchandise.
2. Effective financial and operating control of retail and catalog costs, payrolls and inventories of both retail and catalog divisions.
3. Liberalization of credit payment terms for customers that stimulated sales in the second half.

Retail Sales Set Record

Total sales in 1967 were $1,879,009,189. Retail sales were 2% higher, increasing $26,530,959 to a record high of $1,369,647,400.

Eighteen stores were opened during the year, bringing to 200 the number of modern, new stores now located in large, growing metropolitan market areas. These stores produced more than 75% of our total retail sales in 1967 and assure the Company of a stable base for future sales growth. We now have retail stores in 107 of the nation's major markets and obtained more than $1 billion sales from these areas last year.

We are closing an increasing number of small stores where downtown areas are losing customers to new, outlying shopping centers. In 1967, we closed 36 stores in such markets and plan to close an additional 20 in 1968. When economically sound, some of these stores are being replaced with larger stores in new locations.

ROBERT E. BROOKER Chairman EDWARD S. DONNELL President

Catalog Operations Improve
The trend of earnings of our catalog operations in 1967 showed substantial improvement. Catalog sales declined 7.6% to $509,361,789, primarily because of the decision to eliminate the least profitable sales of this business. Steps taken in 1967 included:

1. Aggressive merchandising programs and techniques were adopted to increase sales of higher quality and higher margin items, thereby increasing the value of the average unit sale.
2. Elimination of low profit margin merchandise items from catalog listings and reduction in the number of catalogs mailed, resulting in fewer catalog pages, lower catalog advertising expense and smaller inventories.
3. Closing of marginal catalog stores or, in many instances, conversion to sales agencies.

These actions, together with a rigorous reduction in catalog house expenses, helped to reduce sales expense ratios and to improve the earnings performance of our catalog operations. We expect increased benefits to accrue in 1968.

New Laws Increase Operating Costs
A direct result of legislative increases of minimum wage rates of 12% in 1967 and 14% in 1968 has been to accelerate inflationary pressures on our economy. To offset these substantial increases in payroll costs, we adopted a new system of standards which produced a $3 million reduction in catalog house payrolls without impairing customer service. Although not installed in retail stores until late 1967, we expect the new standards to minimize retail payroll cost increases in 1968.

Legislative increases of postal rates in 1967 and 1968 would have added $3.5 million to our operating costs. By developing alternative methods of shipping merchandise, and by adopting new control measures, the increased cost can be held to approximately $2 million.

Officer Changes Strengthen Management
Two senior officer changes were made in 1967. Vice President James Lutz was named General Merchandise Manager after a career of 29 years in the chain retailing field. The buying, merchandising and store management experience Mr. Lutz brings to the position greatly strengthens catalog and retail merchandise efforts. Gordon R. Worley was elected Vice President of Finance in July. His 27 years of experience in finance, consumer credit and financial controls in the catalog and retail business have been invaluable in developing a financial program that has allowed us to resume an aggressive credit business.

Changes in Directors
Because of other business interests, two members of our Board of Directors have asked that they not be renominated. Mr. Ernest S. Marsh, Chairman of the Board of the Atchison, Topeka and Santa Fe Railway Company, will be leaving our Board after nine years of service because of the expanded activities of his company. Mr. Fairfax M. Cone, Director of Foote, Cone & Belding advertising agency, has served on our Board for six years but will terminate his service to avoid a conflict of interest with a new client which his agency has accepted. Both executives have made many significant contributions to the progress of Montgomery Ward and their services have been invaluable to our management.

New Corporate Identification Adopted
Customers shop and buy where their confidence is; where they can depend on value, service, broad assortments of merchandise, and courtesy; where they know satisfaction is guaranteed. Symbol of such confidence is the name and reputation of Montgomery Ward.

An important part of our long-range customer relations program has been the creation of a new corporate identification symbol that reflects Montgomery Ward's new emphasis on high quality and value standards. Our new, modern and distinctive identification mark, using a strong blue background, is presented for the first time in this report and will be used as the standard identification mark of Montgomery Ward in the future.

We invite stockholders to enjoy new values and broadened assortments of merchandise, new and improved services and the courtesy of our employees by shopping at our stores and placing orders through our catalogs. We are confident of a favorable appraisal of the results of our efforts to revitalize Montgomery Ward.

Respectfully submitted,

Robert E. Brooker

Robert E. Brooker, Chairman

Edward S. Donnell

April 1, 1968

Edward S. Donnell, President

MONTGOMERY WARD

the consumer, the community, the company

Montgomery Ward's policy of consumer protection—Satisfaction Guaranteed or Your Money Back—has guided our merchandising policies for almost 100 years. As consumer interests change, we conduct frequent studies of customer likes and dislikes and use the findings of such surveys to improve corporate packaging, labeling, displays, and advertising and to provide our customers with the best of each season's merchandise values along with helpful and friendly services that will keep them as loyal and satisfied customers.

Good Consumer Laws Get Ward Support

We firmly believe that well-informed consumers are Montgomery Ward's best customers. For this reason, Wards is in favor of well-written laws that are designed to help consumers make sound buying decisions.

We have established our own public affairs office in Washington, D.C. in order to improve two-way communications with the Congress and Federal agencies.

We supported the step forward which Congress took in acting upon "truth in lending" legislation and will continue to work for workable state laws which provide customers with accurate information on the cost of credit, so long as such laws are applied uniformly to all who are offering credit services.

Urban Problems Gain Full Attention

Wards, like other retailers and business firms, has a vital stake in preserving the vigor and stability of the nation's large metropolitan areas. We are doing our part as a corporate citizen through participation by our executives in over-all community projects and specific Company-instigated programs.

We are training and employing men and women previously classified as unemployable. We are actively engaged in local community efforts to develop self-improvement programs for teen-agers whose educational, economic and cultural opportunities are limited by their inner-city environments.

In the Chicago area, Wards has cooperatively developed and successfully conducted a pilot-type urban coalition program using community, civic, volunteer, government, educational and business counsellors and teachers. We plan to extend and intensify our educational and recreational activities in the coming year, with special emphasis on job orientation programs.

GORDON R. WORLEY Financial Vice President

financial trends and developments

Net sales for the fiscal year ended January 31 were $1,879,009,189 compared with $1,894,123,278 last year, a decrease of $15 million or .8%.

Earnings of $17,425,174 were equivalent to $1.31 per share of common stock as compared with $16,528,438 or $1.24 per share in fiscal 1966. Earnings were lower during the first half of the year, but there was a steady improvement during the second half, as shown below:

	Net Income			
	1967		1966	
Quarter	Millions	Per Share	Millions	Per Share
1st	$ .8	$ .04	$ 2.2	$ .16
2nd	1.7	.12	3.6	.27
3rd	2.1	.15	2.2	.15
4th	12.8	1.00	8.5	.66
Year	$17.4	$1.31	$16.5	$1.24

During the first six months of 1967, sales and earnings were adversely affected by the accelerated repayments on customer accounts which discouraged customers from making credit purchases. Sales were down $18 million or 2.1% in the first six months and earnings were down $3⅓ million or 57%. The stronger second half earnings on a sales volume slightly in excess of 1966 is most encouraging.

The composition of our sales and the relationship to last year's can be seen in the following table:

Net Sales: (millions)	1967	1966	Increase (Decrease)
Retail	$ 1,370	$ 1,343	$ 27
Catalog	509	551	(42)
Total	$ 1,879	$ 1,894	$ (15)

Credit Sales and Accounts Receivable
In mid 1966, the Company elected to reduce the repayment period on its Charg-all revolving credit accounts from 20 months to approximately 14 months. At the same time, promotional efforts to increase credit sales were curtailed. This decision was made at a time when the Company's receivables were increasing rapidly and the availability of funds during the 1966 "tight money" period, as well as the burden of high interest costs, became troublesome.

In August 1967, after additional Company financing was arranged, as noted below, the normal credit terms were re-instituted and aggressive credit promotion programs were undertaken. As a result, the ratio of credit sales to total sales rose from 44% in the second half of 1966 to 49% in the comparable period of 1967. For the full year, credit sales increased to $891 million compared with $838 million in 1966, or 47.4% of total sales in 1967 compared with 44% in 1966.

Accounts receivable of the parent company and its subsidiaries totaled $848,907,505 at year-end, a 2% increase from $832,598,705 in 1966. The number of active customer accounts decreased during the first half of 1967, but responded to the credit terms change and began to increase by year-end.

Financial Resources and Interest Costs
Customer receivables are largely financed by a wholly-owned subsidiary, Montgomery Ward Credit Corporation. As a part of the plan to increase credit sales, a $100 million revolving credit-term loan was negotiated by this subsidiary with several major banks during the summer of 1967 and $50 million 6½%, 20-year debentures were sold through a public offering. Confirmed lines of bank credit, including the revolving credit-term loan, exceeded $515 million at year-end. These bank credit accommodations are deemed more than adequate to finance anticipated accounts receivable growth during 1968.

Interest costs continue high but must be regarded as normal during periods of heavy credit demands by all segments of the economy. In 1967, interest costs were $40,380,257 compared with $45,423,213 in 1966.

Inventories
Year-end inventories were $401,042,790 compared with $408,433,275 last year. This reduction was accomplished through merchandising and control systems and policies that have been adopted in the past two years. Further improvement may be expected in 1968 as computerization and mechanization programs are completed for additional merchandise departments and at catalog house locations.

Taxes and Deferrals
Federal income taxes for 1967 were $13,357,000 compared with $10,939,000 in 1966.

Consolidated earnings are reported after full provision for all state and Federal income taxes and reflect investment tax credits of $863,078 for 1967 and $1,524,226 for 1966. Federal tax laws permit the Company to defer from taxable income its gross profit on uncollected customers' installment balances, thereby reducing current taxes payable. Consolidated income tax on unrealized gross profit was thus deferred in the cumulative amount of $75,920,000 as of January 31, 1968, as compared with $60,365,000 as of February 1, 1967. In addition, tax deferred on depreciation that was accelerated for tax purposes was $19,236,000 compared with $16,315,000 at the end of 1966.

The Company's Federal income tax liability reflects the net amount of future tax benefits resulting from timing differences between book and taxable income. In previous years, this tax effect was offset against the current asset or liability to which it applied. Last year's figures have been restated for comparison purposes. These changes had no effect on earnings.

Retirement and Savings Plans
The Company contributions and provisions for the Employee Retirement and Savings plans totaled $4,023,343 for the 52 week period ended January 31, 1968. Total assets of the funds exceeded $89 million as of the end of the year. At year-end, full provision had been made for all actuarial liabilities of the Retirement Plan.

Dividend Payments and Stockholder Equity
Dividends of $1.00 per share were paid to all holders of common stock and of $7.00 to holders of Class A shares, totaling $13,555,000 as compared with $13,556,091 in 1966.

As of January 31, 1968, shareholders' equity (book value) totaled $51.61 per share compared with $51.32 a year ago. During the year, the Company purchased 14,530 shares of Class A stock for the Treasury.

Capital Expenditures

Capital expenditures were $26.6 million in 1967, as compared with $57.9 million last year.

Depreciation charges of $24 million in 1967, plus additional deferred Federal income taxes of $15.6 million arising from uncollected customers' installment receivables, provided sufficient funds for capital expenditures in 1967. It is expected that these same sources of funds will adequately provide for planned capital expenditures of $40 million in 1968.

In the past five years, capital expenditures totaled $300 million for the establishment of 120 new retail stores, the modernization of 99 additional stores, expansion of warehouse and service facilities, construction of a national replacement parts center and installation of data processing and mechanical handling equipment.

In 1967, 18 new retail stores were opened and present plans provide for 17 new retail stores in 1968.

Changes in property and equipment accounts during the fiscal years 1967 and 1966 are as follows:

Property and Equipment Accounts

	1967	1966
	(millions)	
Balances beginning of year	$344	$312
Changes during year:		
Capital additions	$ 27	$ 58
Depreciation provided	(24)	(22)
Sale—leasebacks	(7)	—
Retirements	(2)	(4)
Net increase	$ (6)	$ 32
Balance end of year	$338	$344

Subsidiary Operations

Pioneer Trust & Savings Bank, acquired in 1966, earned $1,707,752 in 1967 compared with $1,254,212 during the eleven months of Ward ownership in 1966. It ranks as the tenth largest bank in Illinois. Total resources exceeded $200 million on December 31, 1967.

Montgomery Ward Life Insurance Company increased insurance in force at January 31, 1968, to over $700 million, including credit life and employee group coverages, compared with $300 million at the end of 1966.

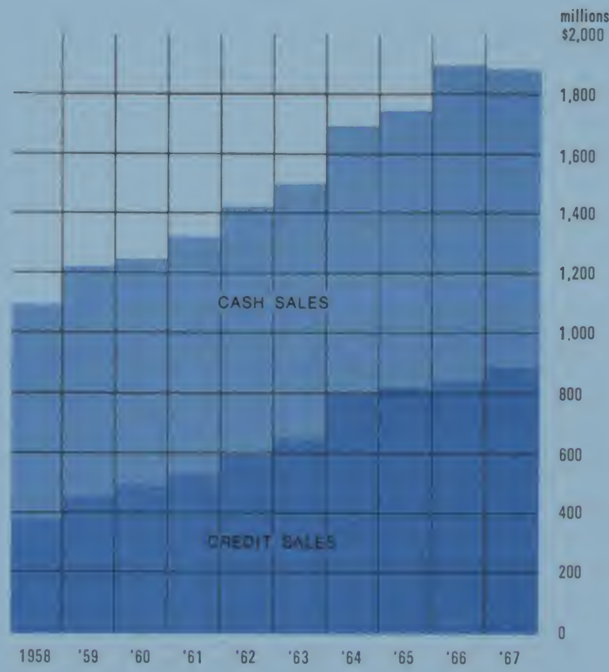
A new consumer protection insurance service was introduced in January of 1968 for Ward's credit customers in certain states where the program had been filed with insurance departments. Credit customers and their spouses are insured in the amount of the unpaid balance of their credit account with Montgomery Ward in the event of death and, if under 60 years of age, for dismemberment. Account holders under the age of 60 also are insured in the event of disability. Monthly premium payments for account balances exceeding $30 are 10 cents per $100 or fraction thereof up to a maximum of $3 for a $3,000 account and are billed on the customer's monthly statement. This new insurance is currently protecting the majority of our credit customers in 32 states.

Acquisition Program

The Company has successfully pursued its previously announced intention of improving earnings through acquisition. On August 1, Wards purchased 99.9% of the common stock of Hydro Conduit Corporation. This well-managed and profitable company, which operates 23 plants in the western part of the United States, is a major producer of large diameter concrete pipe of the type used extensively in water distribution systems. The capable management of Hydro Conduit continues intact to operate this semi-autonomous subsidiary of Montgomery Ward.

Early in 1968, Hydro Conduit acquired Rocky Mountain Prestressed, Inc., and Craftsman Construction Company, Inc., of Denver and the concrete pipe and block plant of Vulcan Materials Company in Houston.

These acquisitions were consistent with our policy of improving earnings per share by acquiring, for cash or debt, companies with stable or improving earnings and a strong management organization. A number of acquisition candidates are continually being evaluated.



TOTAL SALES: CASH AND CREDIT

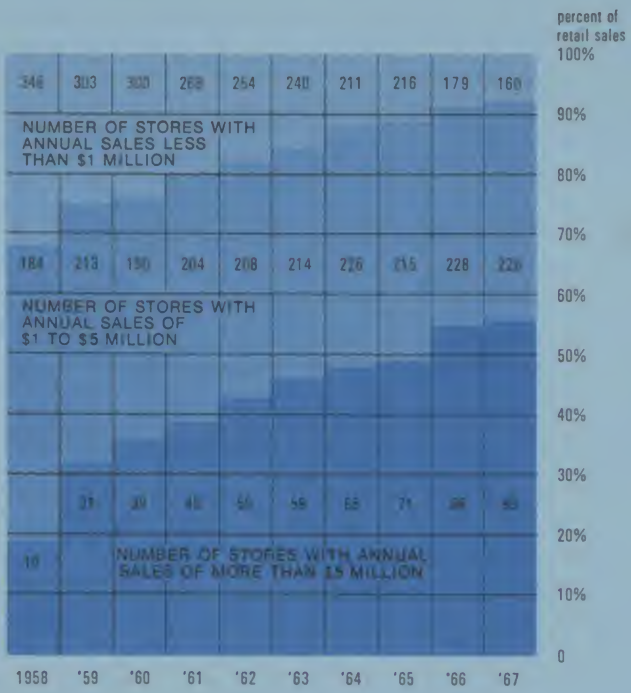
Credit sales in 1967 increased to $891 million compared with $838 million in 1966. This represents 47.4% of total sales, compared with 44% in 1966.

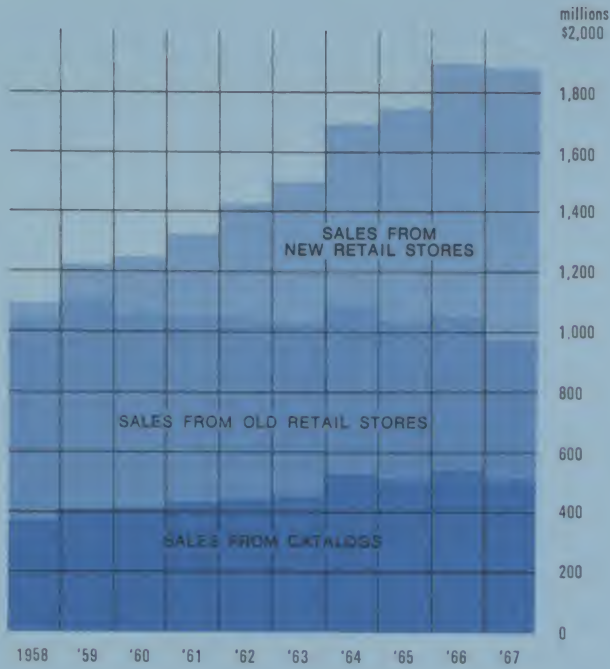
Accounts receivable outstanding at the end of the year (principally customer installment accounts) were $849 million compared with $833 million a year ago. Active credit accounts decreased from 4,900,000 to 4,778,000 at year end. The average balance per customer account increased from $167 in 1966 to $174 in 1967.

Cash sales were $988 million, a decrease of $68 million from last year's $1,056 million.

Charg-all sales amounted to 86.2% of the Company's credit sales in 1967 and time payment sales accounted for the balance of 13.8%. Charg-all sales are expected to represent an even higher proportion of credit sales in 1968.

Growing customer interest in Ward's Charg-all and installment buying plans indicates that total credit sales in 1968 will approximate 50% of sales.





RETAIL SALES: % by store volume categories

Montgomery Ward's 89 largest stores (over $5 million in sales) produced $767 million or 56% of the Company's total retail sales in 1967, compared with $739 million or 55% for the 86 comparable stores in 1966. The graph above indicates the steadily increasing sales volume generated by large stores since 1958, when 19 stores with annual sales of more than $5 million accounted for 19% of retail sales.

Sales for 226 medium size stores (sales of $1 million to $5 million) were $493 million in 1967 compared with $483 million for 228 stores in 1966, 36% in each year.

Sales of the 160 small stores (less than $1 million) totaled $110 million or 8% compared with $121 million or 9% for 179 stores in 1966.

In Ward's 17 major metropolitan districts, 97 retail stores developed more than 51% of total retail sales as compared with 49% by 93 stores in comparable metropolitan districts last year.

TOTAL SALES: RETAIL STORES-CATALOGS

Retail sales in 1967 set a new record of $1,370 million compared with $1,343 million in 1966 and $713 million 10 years ago. Catalog sales in 1967 were $509 million compared with $551 million in 1966 and $379 million 10 years ago.

In 1967, sales from 189 new retail stores (new stores established since 1957) accounted for 66% of the total retail sales volume compared with 62% for 171 such stores in 1966. These 189 retail stores, plus major expansions and rehabilitation of 11 additional large stores, accounted for 75% of total retail sales.

Old stores in small communities accounted for 14% of retail sales as compared with 16% in 1966. In the past 10 years, 268 old stores have been closed. Of the remaining 286 old stores, 99 of which have been modernized, 20 will be closed in 1968.

Company-owned catalog stores were reduced from 793 to 719 during the year and catalog sales agencies were increased from 569 to 632.

MONTGOMERY
WARD

Montgomery Ward is dedicated to achievement of merchandising leadership by providing customers with better quality products that have exclusive design, performance and service features at competitive prices. It is our conviction that by offering these unique product values we will assure complete customer satisfaction and allegiance. Through the combined efforts of our aggressive merchandising organization and a dynamic group of suppliers, we are accomplishing our objectives.

James Lutz

James Lutz
Vice President &
General Merchandise Manager

Pacesetter, policy maker and motivator of Montgomery Ward's top team of merchandising vice presidents is James Lutz (center), 29-year veteran of national retail chain management experience.

Supervision of soft goods, apparel and fashion merchandising is the task of New York Vice President Richard L. Abbott (right), whose buyers must be attuned to constantly changing fashions and consumer preferences. National Retail Vice President Robert M. Harrell (second from left) gives retail sales their impetus and direction through the planning and scheduling of advertising, display and promotional programs featuring those product and service values that will attract customers to Ward stores. National Catalog Vice President S. W. Allred (left) and his staff of merchandisers, copywriters, artists, photographers and sales analysts are revitalizing catalog sales with improved management and promotional techniques. Merchandise Procurement Vice President John A. Marchese (second from right) is responsible for establishing standards of production and the development of product lines that meet Ward's quality and cost specifications.

The plans, imagination, buying and merchandising leadership of these executives are generating new sales and profit opportunities.

THE FASHION LOOK IS NEW AT WARDS

Montgomery Ward's position as one of the largest retailers in the world, and as a pacesetter of fashion, is being strengthened by its coordinated merchandising program which brings together the talents and experiences of buyers, manufacturers and internationally famous designers.

To maintain the excitement of rapid fashion changes—colors, fabrics, designs, styles—and to offer full selections of the best values, National Fashion Coordinator Rita Perna, members of Ward's Designer Advisory Council, buyers and manufacturers of dresses, suits, coats, lingerie, sportswear, accessories, millinery and shoes, work together to make certain that customers can depend on Wards for the right look at the right time.

Constant communication with buying offices in Europe and the Far East, as well as the travel of buyers to the fashion centers of the world, keep Ward's New York fashion headquarters informed on the creation and evolution of new fashion ideas.

Wards buyers make their decisions months in advance of introducing new lines. They choose the fabrics, colors, and patterns; settle on the varieties of style; select the leader and novelty items; sign contracts for proper size selections and quantities.

They also see that there is compatibility of style among various lines so customers who wish to add to their wardrobes during the season will have the assurance they can complement their wardrobes with precoordinated colors, patterns, fabrics and accessories—an important service that Wards offers its customers.

The teaching of fashion, charm, and manners is a personalized service of Ward's stores, where half-a-million young girls have completed Wendy Ward charm school courses under the instruction of former fashion models.

The new fashion look at Wards today is shown in the color photos of this report. The look is colorful, comfortable, casual. It's fashion-right for the college campus, travel, sports, or the home.

THE NEW LOOK FOR MEN STRESSES COLOR AND COMFORT

Men's clothing is new in 1968, new in fabrics, colors, patterns, weaves, style and value. Color-coordinated wardrobes feature all-season fabrics that require a minimum of cleaning, laundering, ironing and pressing. They are casual and care-free, giving full expression to the great break-away from the traditional, the dull and the drab. Men's wear at Wards is fashion-right for men of all ages on the university campuses (above) or in the diverse environments of their many vocations and avocations.

Merchandise buyers capture style ideas from creative young designers, from college campuses, from the casual attire of champion golfers, the brilliant colors of sports car race drivers and the bold and beautiful patterns of ski sweaters and sailing jackets.

Ward's exacting quality control buying procedures assure that outstanding value is included in every item of men's clothing as fabrics and patterns are mixed with greater freedom, incorporating casual comfort into many new fashion looks.

Campers, hunters, fishermen, and other outdoor enthusiasts have long depended on Wards for boots, shoes, jackets and other clothing items that are comfortable and able to withstand the most rugged weather conditions. Typical of the protection and value offered to sportsmen is Ward's Four Season speedlacer waterproof and insulated boot, highest priced, yet most popular item offered in Ward's regular shoe line.

For 11 to 14-year-old boys, Wards has established special Combo Shops in 200 of its largest stores. Featured in these distinctive, youth-oriented areas are the bold, new color-coordinated "in" look clothes that teenagers want, completely harmonized for instant fashion rightness.

Because it takes more than just clothes to make the man—and, in this case, the teenager—Wards recently introduced a "Man in Command" program which helps him to spend wisely and choose smartly for his wardrobe. This program also helps him solve other growing boy problems—like grooming, manners, and dating techniques. It's another of Wards many customer services.

HOME FURNISHINGS BLEND IN DECOR, COLOR

Colorful, casual, comfortable and functional—this is the way American families are living and the manner in which they are furnishing and decorating their homes and apartments, as in the completely Ward-furnished room pictured at the left.

The appearance of any room can be tastefully individualized in limitless ways with assurance that furniture, floor and wall coverings, draperies, paints and accessories will blend in decor and color through use of Ward's color coordinated Style House lines of merchandise. These have been developed by National Home Furnishings Fashion Coordinator H. D. Farrar in cooperation with experienced buyers who work with nationally famous manufacturers to utilize new materials, to assure color standardization and quality, and to develop exclusive merchandise for Montgomery Ward.

Furniture lines include country casual, traditional, contemporary, Italian, Mediterranean and classic. Each group can be purchased in complete room settings with complementary furnishings and accessories or as individual pieces. A variety of styling and finishes also is available in Ward's complete lines of Airline television, radio and stereo communications systems.

The Company's furniture sales have kept pace with the demands of the nation's 900,000 new homemakers each year. Through the years, a major service has been the assistance offered customers in the modernization and redecoration of their existing households. Home decorating and counselling services are offered through retail stores or by mail. All stores use a specifically-prepared Professional Decorators Guide for customer counselling and many employ the services of local decorators who qualify for membership in Ward's Decorators Association.

Such booklets as *Draperies and Slipcovers Made the Style House Way*, *Art of Upholstery* and *Style House Color Coordination Guide* help customers select merchandise that will harmonize with their present furnishings and decor.

EVERYTHING FOR HOME CONVENIENCE

Modern, color-coordinated kitchens, complete with appliances, fixtures, accessories and furnishings for any type of home or apartment, are designed and installed to meet each customer's special requirements—an invaluable customer service that can be provided only by a company such as Montgomery Ward. Staffs of experienced kitchen planners convert rough sketches and photos supplied by customers into perspective drawings of bright and efficient convenience centers for the home-owners and apartment dwellers.

Everything in any room in the house can be provided by Wards, as in the kitchen at the right—lightweight, stick-on foam plastic ceiling beams, realistic brick and mortar wall covering, fruitwood steel cabinets, tri-ply stainless steel cookware, Signature self-cleaning oven, three-door ice-making refrigerator, teletalk communicator and everything else, including tableware and family apparel.

Whether it be a kitchen, bathroom, family room or entire home, Wards plans and installs all equipment, from furnace to attic fan and air conditioner, with guarantees of quality of workmanship and performance of every product. Bathroom boutiques are color-coordinated with custom-designed marble-top vanities in Early American, Mediterranean or Classic styles, adding a luxury look at values that assure satisfaction.

In Ward's million dollar merchandise research and development center, physicists, chemists, engineers and laboratory technicians pool their knowledge and experience to improve safety, convenience, attractiveness, reliability, economy and quality control of all Ward products.

Thousands of skilled repair technicians carry out Ward's long-standing policy of servicing all merchandise it sells. Rapid delivery of repair parts is provided from a new National Parts Center that warehouses more than 40,000 different spare parts and, through computer controls, delivers these parts to any location in the United States 80% faster than was possible a year ago.




LEISURE—A MULTI-BILLION DOLLAR MARKET

The "pursuit of happiness" in America has become a multi-billion-dollar-a-year market. It has grown three-fold in the past ten years. Its future growth will accelerate as the nation's wage and salaried workers earn more leisure time with larger incomes, and as students, executives, professional men, and pensioners use more of their disposable incomes for hobbies, self improvement and recreation. Montgomery Ward's annual share of the leisure market is increasing rapidly as the introduction of new merchandising programs make this one of the Company's most dynamic growth areas.

In sports, Wards offers everything from snowmobiles to surfboards, skis to scuba gear. For almost any indoor or outdoor recreational activity—boating, fishing, hunting, golfing, tennis, cycling, ping-pong, pool, or croquet—Wards buyers are seeking out and stocking new and better equipment. They are assisted in their judgment by top professionals—like Stan Musial in baseball, Julius Boros in golf, Art Mercier in hunting and fishing, George Allen in football, and others who make up Ward's Sports Advisory Board.

In camping and boating, Wards offers the outdoor enthusiasts a complete outfitting, with lines that include tent trailers, portable stoves and refrigerators, rods, reels, rifles, boats, outboard motors—even mosquito repellent.

In gardening and lawn care, Ward's stores and catalogs offer unexcelled values in everything from tractors to trowels, from sprayers to specimen plantings.

In photography, Wards offers a selection of cameras, projectors, and developing apparatus that range from an instant-load camera at $6.75 to top-quality equipment made to exacting specifications by name suppliers.

For do-it-yourself hobbyists, Wards offers a complete line of equipment for the home craftsman. A leader in the line is the Powr-Kraft radial arm saw, designed by Wards and unmatched in quality, versatility, and price.

In musical instruments, Wards offers just about everything, including an Airline chord organ for $204.95 and a full line of guitars. Ward merchandise buyers are rapidly developing new product lines as the avocation of leisure and the imagination and affluence of millions of Americans stimulate the growth of this market.

SERVICE, SAFETY, SATISFACTION

Service, with a guarantee of satisfaction, is the extra value that customers can depend on at Ward's 496 Auto Service Centers which install shock absorbers, stereo tape players and more than 6,000 parts and accessories. A fifty per cent expansion in the past five years provides space to service more than 3,000 autos at any one time.

Safety, reliability, long-wear and economy have raised Ward's Riverside tires to the fifth most popular national brand for replacements and the Number One private brand for truck fleets. With automotive parts, accessories and service sales already at record levels, Wards continues to improve its product values and to expand its facilities to serve the needs of an ever-expanding mobile America.

MONTGOMERY
WARD

Balance Sheet

ASSETS

	January 31, 1968	February 1, 1967
Current Assets:		
Cash	$ 43,920,213	$ 38,247,693
Receivables, less reserves for doubtful accounts and unearned carrying charge income of $38,555,457 in 1968 and $35,574,067 in 1967	848,907,505	832,598,705
Merchandise inventories, at the lower of cost or market	401,042,790	408,433,275
Prepaid catalog costs, supplies, etc.	44,857,210	50,836,528
Total current assets	$1,338,727,718	$1,330,116,201
Net Equity in, and Advances to, Subsidiaries Not Consolidated	$ 49,118,738	$ 27,868,026
Properties and Equipment, at cost:		
Land	$ 43,151,590	$ 43,930,062
Buildings	227,331,503	221,243,364
Leasehold improvements	28,654,398	28,385,087
Fixtures and equipment	190,507,967	183,772,711
	$ 489,645,458	$ 477,331,224
Less accumulated depreciation and amortization	151,236,821	133,119,337
Properties and equipment, net	$ 338,408,637	$ 344,211,887
Debenture Discount and Expense, after amortization	$ 3,922,023	$ 3,634,588
	$1,730,177,116	$1,705,830,702

LIABILITIES

	January 31, 1968	February 1, 1967
Current Liabilities:		
Notes payable	$ 368,035,466	$ 460,618,489
Accounts payable and other liabilities	126,340,543	104,780,532
Accrued expenses	80,829,802	64,943,101
Federal taxes on income	58,997,199	48,757,084
Total current liabilities	$ 634,203,010	$ 679,099,206
Deferred Federal Taxes on Income	$ 19,236,000	$ 16,315,000
Long-Term Debt	$ 414,664,667	$ 350,598,667
Capital Stock and Earnings Reinvested:		
Class A stock, no par value—Authorized 205,000 shares non-callable, $7.00 per share cumulative dividends, issued 201,554 shares less 76,860 shares in Treasury in 1968 and 62,330 in 1967 stated at liquidating value	$ 12,469,400	$ 13,922,400
Common stock, no par value—Authorized 20,000,000 shares; issued 13,004,756 shares at stated value	211,231,385	211,231,385
Earnings reinvested in the business	452,223,659	448,515,049
	$ 675,924,444	$ 673,668,834
Less—Treasury common stock, 418,199 shares at cost	13,851,005	13,851,005
Total capital stock and earnings reinvested	$ 662,073,439	$ 659,817,829
	$1,730,177,116	$1,705,830,702

Explanatory notes to these financial statements appear on pages 28 and 29.

Statement of Earnings

for the 52-week periods ended January 31, 1968 and February 1, 1967

	1967	1966
Net Sales	$1,879,009,189	$1,894,123,278
Costs and Expenses:		
Cost of merchandise sold, including net buying, operating, selling and administrative expenses other than itemized herein	$1,706,386,241	$1,720,572,093
Rents	30,993,140	30,075,859
Maintenance and repairs	8,075,648	8,332,403
Depreciation and amortization	23,906,429	22,057,552
Contribution to employees' savings and retirement plans	4,023,343	5,488,663
Property, social security and state taxes	37,562,079	37,334,820
Interest expense	40,380,257	45,423,213
Provision for Federal taxes on income	12,481,000	9,995,000
Total costs and expenses	$1,863,808,137	$1,879,279,603
Net Earnings from Operations	$ 15,201,052	$ 14,843,675
Net Earnings of Subsidiaries Not Consolidated	2,224,122	1,684,763
Total Net Earnings	$ 17,425,174	$ 16,528,438

Earnings per Share of Common Stock

	1967	1966
Total Net Earnings	$ 17,425,174	$ 16,528,438
Less dividends paid on Class A Stock	968,443	974,568
Earnings Applicable to Common Stock	$ 16,456,731	$ 15,553,870
Net Earnings Per Share of Common Stock		
Based on average number of common shares outstanding	$ 1.31	$ 1.24

Statement of Earnings Reinvested

for the 52-week periods ended January 31, 1968 and February 1, 1967

	1967	1966
Balance at Beginning of Period	$ 448,515,049	$ 445,542,702
Net Earnings	17,425,174	16,528,438
Total	$ 465,940,223	$ 462,071,140
Cash Dividends:		
Class A stock —$7.00 per share	$ 968,443	$ 974,568
Common stock—$1.00 per share	12,586,557	12,581,523
Excess of Cost Over Stated Value of Class A Shares Reacquired	161,564	—
Total	$ 13,716,564	$ 13,556,091
Balance at End of Period	$ 452,223,659	$ 448,515,049

Statement of Source & Disposition of Funds

for the 52-week periods ended January 31, 1968 and February 1, 1967

	1967	1966
Source of Funds		
Net earnings	$ 17,425,174	$ 16,528,438
Depreciation and amortization charged to earnings	23,906,429	22,057,552
Increase in deferred Federal taxes on income	2,921,000	1,971,535
Funds provided from operations	$ 44,252,603	$ 40,557,525
Proceeds from sale and leaseback of retail store properties	7,362,915	—
Long-term borrowings, net	64,066,000	1,215,667
Other—net	(287,435)	233,880
Total source of funds	$ 115,394,083	$ 42,007,072
Disposition of Funds		
Acquisitions of properties and equipment, less retirements	$ 25,466,094	$ 54,693,317
Cash dividends	13,555,000	13,556,091
Purchases (sales) of treasury stock	1,614,564	(112,429)
Investments in subsidiaries not consolidated	21,250,712	25,481,511
Total disposition of funds	$ 61,886,370	$ 93,618,490
Increase (decrease) in working capital	$ 53,507,713	$ (51,611,418)

Explanatory notes to these financial statements appear on pages 28 and 29.

notes to financial statements

Principles of Consolidation

The financial statements include the accounts of the Company and all wholly-owned subsidiaries except Montgomery Ward Life Insurance Company. The caption "Net Equity in, and Advances to, Subsidiaries Not Consolidated," in the balance sheet includes the Company's investment in Pioneer Trust and Savings Bank, Hoffman Products Corporation and Hydro Conduit Corporation and the Company's share of accumulated earnings of these companies since acquisition in the amount of $3,908,885 as of January 31, 1968, which amount is included in Earnings Reinvested.

Acquisition

On July 31, 1967 the Company acquired 99.985% of the capital stock of Hydro Conduit Corporation at a cost of $16,497,500. An additional future payment in the form of Sinking Fund Debentures in an amount up to $16,500,000 may be required contingent upon future earnings of this subsidiary.

Costs and Expenses

The Statement of Earnings sets forth certain merchandise costs and operating expenses. These same costs and expenses may also be presented as follows: cost of merchandise sold, including net occupancy and buying expenses, $1,364,155,144 in 1967 and $1,377,590,106 in 1966; operating, selling and general administrative expenses, $445,619,598 in 1967 and $445,641,293 in 1966.

Depreciation

Depreciation has been provided by the companies on the straight-line method at rates considered adequate to amortize the cost of the fixed assets over their estimated useful lives.

Retirement Plan

Substantially all regular full-time employees of the Company and its subsidiaries are covered by a contributory retirement income plan. The Company provides for current service costs and, at year end, full provision has been made for all actuarial liabilities under the Plan. In determining the actuarial liability and the current service costs, the rate of estimated future earnings of the investments of the Plan was increased in 1967 from 3½% to 5% to reflect more closely the actual rate of earnings of the Plan. During 1967 and 1966 the Company provided $2,700,000 and $4,250,000, respectively, for the Plan.

Federal Income Taxes

The provisions for Federal taxes on income in the Statement of Earnings for both 1967 and 1966 are not currently payable because of differences between book and tax income resulting primarily from deferring the payment of Federal income taxes on the gross profit on installment sales.

The Company's Federal income tax liability includes taxes deferred on customer installment accounts of $75,920,000 at the end of 1967 and $60,365,000 at the end of 1966. This liability has been reduced by the net amount of future tax benefits resulting from timing differences between book and tax income for certain current asset and current liability accounts. In previous years this tax effect was offset against the current asset or liability to which it applied. The change in reporting was made to comply with a recently issued opinion of the Accounting Principles Board of the American Institute of Certified Public Accountants and has no effect on reported earnings. The prior year's balance sheet amounts have been restated to reflect this change.

Employees' Stock Options

Under the Company's stock option plan, 576,605 shares of common stock were reserved as of January 31, 1968 for issuance to officers and key employees. On January 31, 1968, options for a total of 527,440 shares, of which 256,553 shares were exercisable, were held by 221 individuals at prices ranging from $21 to $47⅞ per share, equal to 100% of market value at dates of grant. Options granted prior to January 1, 1964 are for a period of 10 years and on and after January 1, 1964 for a period of five years. Options are exercisable in cumulative installments of 10% per year for options granted prior to May 11, 1962 and 20% per year for options granted thereafter, commencing one year from date of grants. During the 1967 fiscal year, no stock options were exercised.

Credit Agreement

On September 1, 1967, the Montgomery Ward Credit Corporation entered into a Credit Agreement permit-

ting it to borrow up to $100,000,000 on a short-term basis at prime interest rates. On January 15, 1969 or August 1, 1969, the Credit Corporation may, at its option, convert outstanding notes under this Agreement into three-year term notes which would bear interest at a rate of ¼ of 1% above the prime rate for unsecured loans.

Long-Term Debt
(less amounts due within one year):

	January 31, 1968	February 1, 1967
Montgomery Ward & Co., Incorporated		
6% Sinking Fund Debentures, due 1982	$ 15,065,000	$ —
4⅞% Sinking Fund Debentures, due 1990	150,000,000	150,000,000
4¾% Unsecured Note, due 2020	2,166,667	2,166,667
Montgomery Ward Credit Corporation		
*Term Notes due 1970-71	50,000,000	50,000,000
4⅞% Debentures, due 1980	50,000,000	50,000,000
4¾% Debentures, due 1981	25,000,000	25,000,000
5¼% Subordinated Debentures, due 1981	25,000,000	25,000,000
6½% Debentures, due 1987	50,000,000	—
Montgomery Ward Real Estate Sudsidiaries		
5¼% Secured Notes, due serially to 1991	16,472,000	16,863,000
4¾% Secured Notes, due serially to 1994	9,966,000	10,171,000
4¾% Secured Notes, due serially to 1995	20,995,000	21,398,000
Total long-term debt	$414,664,667	$350,598,667

*Term Notes in the amount of $34 million provide for interest at a variable rate, which was 6¼% at January 31, 1968. The balance of the Term Notes have a fixed interest rate of 4¾%.

Under various indentures the Company may not declare any dividends on its common stock or acquire any of its classes of stock if, after giving effect thereto, it cannot meet certain financial requirements as defined in the indentures. Under the most restrictive of these requirements, $28,168,981 of Earnings Reinvested were not restricted at January 31, 1968.

The 4⅞% Sinking Fund Debentures require payments of $7 million annually beginning in 1975 and $45 million will be due August 1, 1990.

The 6% Sinking Fund Debentures are payable in 15 equal annual installments commencing August 1, 1968. The payment due August 1, 1968 is included in Notes Payable.

The Secured Notes of the Real Estate Subsidiaries are payable in semi-annual installments approximating $1 million annually. The payments due within one year are included in Notes Payable.

Lease Obligations
The Company had 640 leases in effect as of January 31, 1968, having terms of more than three years after that date. These leases provided for present aggregate minimum annual rentals of approximately $27,555,000 plus, in certain instances, real estate taxes and other expenses. Additional amounts based upon percentage of sales may become due on 35% of these leases. The Company has no obligation under any of these leases beyond 2016 except for two ground leases which extend through years 2017 and 2029.

AUDITORS' REPORT

To the Stockholders and Board of Directors, Montgomery Ward & Co., Incorporated:

We have examined the balance sheet of Montgomery Ward & Co., Incorporated (an Illinois corporation) and consolidated subsidiaries as of January 31, 1968, and the related statements of earnings, earnings reinvested and source and disposition of funds for the 52-week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding 52-week period.

In our opinion, the accompanying financial statements referred to above present fairly the financial position of Montgomery Ward & Co., Incorporated and consolidated subsidiaries as of January 31, 1968, and the results of their operations and source and disposition of their funds for the 52-week period then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding 52-week period.

Arthur Andersen & Co.

Chicago, Illinois, March 13, 1968

ten-year statistical summary

	1967	1966	1965
Operations			
Net Sales	$1,879,009,189	$1,894,123,278	$1,748,360,155
Net Earnings	17,425,174	16,528,438	23,962,876
Federal Income Taxes *(including all subsidiaries)*	13,357,000	10,939,000	17,748,000
Dividends	13,555,000	13,556,091	13,555,075
Earnings Reinvested or *(in italics)* Paid Out to Stockholders from earnings of previous years	3,870,174	2,972,347	10,407,801
Additions to Properties and Equipment	26,645,076	57,865,851	68,202,515
Depreciation and Amortization	23,906,429	22,057,552	19,151,531
Number of Retail Stores	475	493	502
Number of Catalog Stores	719	793	864
Number of Catalog Sales Agencies	632	569	287
Average Number of Employees	100,910	105,423	98,484
Financial Position			
Working Capital	$ 704,524,708	$ 651,016,995	$ 702,628,413
Accounts Receivable	848,907,505	832,598,705	834,953,155
Inventories	401,042,790	408,433,275	400,205,598
Net Investment in Properties and Equipment	338,408,637	344,211,887	311,576,122
Long Term Debt	414,664,667	350,598,667	349,383,000
Stockholders' Interest			
Capital Stock and Earnings Reinvested	$ 662,073,439	$ 659,817,829	$ 656,733,053
Investment per Common Share *(book value of shares outstanding at end of year)*	51.61	51.32	51.09
Earnings per Common Share *(on average number of shares outstanding during the year)*	1.31	1.24	1.83
Dividends per Common Share	1.00	1.00	1.00
Shares Outstanding:			
Class A	124,694	139,224	139,224
Common	12,586,557	12,586,557	12,581,422
Number of Stockholders	85,383	87,539	86,737

1964	1963	1962	1961	1960	1959	1958
$1,697,390,884	$1,500,111,708	$1,425,187,840	$1,325,941,281	$1,248,993,866	$1,222,596,263	$1,092,267,472
21,865,389	20,966,606	20,415,681	15,859,096	15,053,599	30,656,537	28,030,510
17,300,000	17,353,000	20,825,000	16,780,500	16,551,700	32,775,000	28,800,000
13,549,636	13,879,732	13,996,630	14,182,249	20,619,205	27,010,180	27,011,140
8,315,753	7,086,874	6,419,051	1,676,847	*(5,565,606)*	3,646,357	1,019,370
73,022,509	74,093,240	22,752,409	30,537,015	39,746,106	36,073,835	27,271,255
17,142,890	13,346,614	11,899,981	10,375,067	8,535,689	6,429,527	5,334,929
502	512	512	517	529	547	549
818	737	691	676	627	568	527
108	—	—	—	—	—	—
93,802	82,890	77,123	72,106	67,258	63,153	58,152
$ 588,516,455	$ 566,830,515	$ 618,080,594	$ 612,856,332	$ 582,460,730	$ 541,005,545	$ 566,551,714
717,379,497	573,363,483	463,770,051	419,068,176	389,379,113	338,406,899	289,056,637
349,866,801	328,564,429	285,720,832	296,174,404	266,784,895	260,218,266	242,286,480
269,145,659	216,757,449	159,764,797	152,615,883	133,497,069	104,691,071	75,225,195
200,288,000	128,652,000	118,239,000	118,541,000	68,829,000	—	—
$ 646,250,026	$ 637,935,982	$ 640,679,610	$ 635,438,336	$ 640,218,052	$ 645,696,616	$ 641,776,909
50.27	49.63	49.38	48.80	48.42	48.85	48.57
1.66	1.57	1.51	1.13	1.07	2.28	2.08
1.00	1.00	1.00	1.00	1.50	2.00	2.00
139,224	141,254	201,554	201,554	201,554	201,554	201,554
12,578,812	12,569,152	12,565,771	12,608,396	12,805,696	12,803,406	12,796,256
91,754	96,776	104,580	108,194	107,609	106,006	99,956

DIRECTORS

Robert E. Brooker
*Chairman of the Board, 1962**

James J. Nance
Chairman of the Executive Committee, 1962

Dwight M. Cochran
President, Kern County Land Co., San Francisco; Senior Vice President, Tenneco, Inc., Houston, 1965

Fairfax M. Cone
Director, Foote, Cone & Belding, Advertising Agency, Chicago, 1962

Edward S. Donnell
President, Montgomery Ward, 1963

Harold F. Dysart
Vice President, Montgomery Ward, 1966

Donald M. Graham
Vice Chairman of the Board of Directors, Continental Illinois National Bank and Trust Company of Chicago, 1962

Edward Gudeman
Partner, Lehman Brothers, New York, 1963

James Lutz
Vice President, Montgomery Ward, 1966

Ernest S. Marsh
Chairman, The Atchison, Topeka and Santa Fe Railway Company, Chicago, 1959

Sidney A. McKnight
Vice President, Montgomery Ward, 1965

Robert L. Milligan
Chairman, Pure Oil Company, a Division of Union Oil Company of California, Chicago, 1959

Martin D. Munger
Vice President, Montgomery Ward, 1965

Frederick H. Veach
Vice President, Montgomery Ward, 1965

**Date indicates year elected Director*

CORPORATE OFFICES
619 West Chicago Avenue, Chicago, Ill. 60607
Telephone (312) 467-2000

TRANSFER AGENTS
The Northern Trust Company, Chicago, Ill.
Morgan Guaranty Trust Company of New York, New York, N. Y.

REGISTRARS
The First National Bank of Chicago, Chicago, Ill.
Bankers Trust Company, New York, N. Y.

OFFICERS

Robert E. Brooker
Chairman

Edward S. Donnell
President

VICE PRESIDENTS

Richard L. Abbott
New York Office

Ashley D. DeShazor
Credit

Harold F. Dysart
Operating

John D. Foster
Personnel

James Lutz
Merchandising

Sidney A. McKnight
South Central Region

Martin D. Munger
Eastern Region

Frederick H. Veach
Western Region

Daniel Walker
General Counsel

S. Donald Ward
North Central Region

Gordon R. Worley
Finance

DIVISIONAL VICE PRESIDENTS

Sanford W. Allred
Catalog Merchandising

Chett A. Eckman
Catalog Operations

Robert V. Guelich
Public Relations

Robert M. Harrell
Retail Merchandising

Phillip I. Lifschultz
Taxes

John A. Marchese
Procurement

Kermit A. Pickett
Systems

Richard C. Scheidt
Labor Relations

ASSISTANT VICE PRESIDENTS

Dean R. Lewis
Customer Service

Leo J. Leydon
Auditing

Herman A. Nater
Distribution

William J. Schroeder
Accounting

ASSISTANT TREASURERS

James D. Gibbons
Financial Analysis

Russell E. Mooney, Jr.
Banking Operations

John F. Rice
New Business Development

Roger M. Vasey
Field Operations

ASSISTANT SECRETARIES

Harold W. Bancroft
Mark C. Curran
William F. McNally
James G. McWaters
Joseph R. Petr
Irwin J. Shapiro
William A. Voss

OTTO STORCH
art director
McCALL'S MAGAZINE

JOHN BOWERS
director corporate identity
FORD MOTOR COMPANY

FRED LUDEKENS
chairman
FAMOUS ARTISTS SCHOOLS

JOHN O'TOOLE
creative director
FOOTE, CONE & BELDING

LOWELL BRODY
vice president
ABBOTT MERKT ARCHITECTS

MELBA HOBSON
fashion designer
CONSULTANT

ALLEN HURLBURT
art director
LOOK MAGAZINE

The above experts in design psychology and visual communications served as the advisory panel in the final selection of the Company's new identification symbol being introduced in this annual report. This new mark of quality will appear with increasing frequency in newspaper advertisements, catalogs, displays, packaging and signing of stores and trucks in projecting the new Montgomery Ward image of better values, service, merchandise assortments and courtesy.

MONTGOMERY
WARD

MONTGOMERY
WARD